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WASHINGTON NOTES

THE RAILROAD RATE CASES

A COST-OF-LIVING REPORT

NATIONAL CURRENCY ASSOCIATIONS

BANK CONTROL THROUGH RESERVE AGENTS

A NEW STEP IN TARIFF REVISION

Under the terms of the modified Act to Regulate Interstate Commerce as adopted at the last session of Congress, the Interstate Commerce Commission has embarked upon what is probably the most extensive piece of rate regulation ever attempted. After President Taft had secured an agreement with the roads whereby they were to suspend the advances in rates which they sought to file prior to the passage of the new law, and had induced the roads to await the adoption of the statute, agreements were effected between the roads and the commission. Under these, the former voluntarily withdrew their new rate sheets and accepted a date for hearing which would allow the commission time to ascertain what rate sheets deserved discussion. It was then believed that such examination would result in the selection of comparatively few typical rate sheets. It was, however, resolved to suspend no less than 4,500 sheets. The first actual hearing in the cases took place in Chicago on August 29, this being designed especially for the western roads, while the case of the eastern roads was opened at New York on September 7. In each hearing the railroads were compelled to take the witness stand first, since the new law places upon them the burden of proof in substantiating the justice of proposed rate increases. The summer's discussions and the hearings as thus far held have developed to an unexpected degree the great significance of the work that is being done by the Interstate Commerce Commission in these adjudications. It is now plain (1) that the hearings must result in a study of railroad capitalization with a view to a determination whether "over-capitalization" necessitates advances in rates in order to enable the payment of dividends; (2) that the roads will be required to demonstrate in precisely what degree their accounts, as filed with the Interstate Commerce Commission, represent the actual state of affairs, particularly in regard to the item of maintenance expenses; (3) that there will be a thorough scrutiny of the conditions under which railroad supplies are bought in order to ascertain whether the high prices paid by the roads for their supplies have actually represented the best terms

that could be had in the market by large buyers or whether prices were artificially advanced through manipulation in the interest of subsidiary concerns. The evident intention of the commission is to continue the study of these problems up to the ten months' limit allowed by the law (reckoning the ten months from about August 1, 1910). Meantime President Taft has appointed a railroad capitalization commission with President Arthur T. Hadley, of Yale University, at its head, and Messrs. F. N. Judson, of St. Louis, Frederick Straus, of New York, W. L. Fisher, of Chicago, B. H. Meyer, of Wisconsin, as members. This commission has been directed to go abroad or to send a subcommittee abroad for the purpose of studying the method of capitalization control employed in foreign countries. The report of the commission will probably not be available until late in the next congressional session, but it is already apparent that when the document is transmitted to Congress a revival of the railroad discussion of last session will occur.

The hasty and inadequate sessions of the Lodge Cost-of-Living Committee have been summarized in a report issued as Senate Report 912 (61st Congress, 2d sess.). The report is accompanied by a minority report prepared by or for the Democratic members of the committee, and published as Part 2 of the same document. The report is disappointing in that it draws but slightly upon new data for the basis of its conclusions. The chief sources from which figures have been obtained have been the reports of the Bureau of Labor and other well-known government publications. Some additions have been made from current commercial journals of an easily accessible sort, and some figures were obtained direct from the witnesses who appeared before the committee at the hearings of that body. Naturally the majority report minimizes the effect of the tariff upon prices, assigning to customs duties practically no influence, although a way of escape from the consequences of this position is provided by the statement that no effect has been produced since 1900. It is, of course, the case that substantially similar duties have been in operation during the intervening years, so that the effect on prices, whatever it may be, has been constant. Among the causes for the rise of prices are mentioned higher cost of production of farm products, increased demand for such products, shifting of population from food-producing to food-consuming occupations and localities, reduced fertility of land, increased banking facilities used for the holding of crops, reduced supplies

convenient to transportation lines, cold storage systems, higher costs of distribution, industrial combinations, organizations of producers or dealers, advertising, increased money supply, over-capitalization, higher standards of living, and others. Little or no interest attaches to the theoretical treatment of most of the topics thus outlined in the report, although there is a significant discussion of the influence of the gold supply upon current prices. The view is accepted that the increase in gold has cheapened the standard and raised prices. The report, however, cautiously adds that "it is not contended that this increase is the dominant, or even a principal, cause of the rise of prices, but it undoubtedly has exerted a positive effect by cheapening the standard of price, and at the same time enormously increasing the amount of credit based on gold." The minority report is confessedly a political document written in partisan style and accepting some of the "causes of higher prices" assigned by the majority report but laying great stress upon the tariff and the "trusts" among such causes. Neither document justifies the hopes that were expressed concerning this investigation, or does much more than confirm the belief in the entire insincerity with which the problem has been handled.

One of the most significant currency developments of the past year has been brought about during the summer by the action of Secretary of the Treasury McVeagh in once more attempting the organization of "national currency associations" under the terms of the Aldrich-Vreeland emergency currency law. Practically nothing has been done by the treasury or the banks under this legislation. Secretary Cortelyou, immediately after the passage of the legislation, early in the summer of 1908, formulated regulations designed to provide for the creation of associations, and these were taken under consideration by some eight groups of banks. With the exception of the clearing-house banks of Washington, which finally organized an association out of compliment to Congress and to the Secretary of the Treasury, these groups of bankers all determined to take no action under the law, the Washington bankers acting otherwise because of the prevalence of the belief among them that no issues of emergency notes would ever be desired in their city. The other groups based their refusal largely upon the opinion expressed by the Secretary of the Treasury (and by him founded upon an opinion of the Department of Justice) that the Aldrich-

Vreeland law afforded no means by which a bank that had once entered an association could withdraw from it. Secretary McVeagh first addressed himself to the task of overcoming this obstacle, and with the aid of the authorities of the Department of Justice under the Taft administration, means were found for providing for the withdrawal of banks from the currency associations. The Secretary of the Treasury then sought to drive the banks of important centers into the proposed associations, beginning early in July by expressing to influential bankers his view that action ought to be taken under the law in order that there might never be ground for the charge that there had been neglect of obvious means of avoiding financial disaster. Yielding to such representations the bankers of New York, Philadelphia, Boston, New Orleans, Atlanta, and more lately Chicago, organized associations. Correspondence has been opened by the Treasury with bank officers in St. Louis, San Francisco, St. Paul, Minneapolis, Seattle, Denver, Detroit, Louisville, Cincinnati, Cleveland, and Albany. General reluctance has been expressed with reference to the organization of the associations, and in the course of the discussion several unexpected defects of the Aldrich-Vreeland act have come to light. The most notable of these is the ambiguity of the definition of the term "commercial paper" there given as the security upon which the notes to be issued are to be based. The Aldrich-Vreeland law provides in section 1 that "the term 'commercial paper' shall be held to include only notes representing actual commercial transactions which when accepted by the association shall bear the names of at least two responsible parties and have not exceeding four months to run." This, it has been noted, would shut out most of the "commercial paper" held by banks in many localities and some of the best paper held by the banks in nearly all localities. In a letter to Mr. Forgan, of Chicago, Secretary McVeagh has, therefore, defined commercial paper as practically anything the banks themselves consider commercial paper and specifically states that single-name paper indorsed by the banks themselves may be so considered within the meaning of the law. The definition has been generally unacceptable. It is regarded as straining the language of the law and as opening greater difficulties than those it was intended to remove.

An important step toward the closer control of the national banks through the federal currency bureau in the Treasury Depart-

ment has been taken by Comptroller of the Currency Lawrence O. Murray. In an order to the national bank examiners, dated September 3, Mr. Murray has directed that bankers be notified of his intention henceforward to exercise the authority bestowed upon him in the national act for the "approving" of reserve agents. Heretofore, this function has been practically automatic, the process of approving reserve agents being performed in a routine manner by clerks in the office of the comptroller. No reserve agent was ever disapproved. Up to the present time, it has frequently happened that reserve agents were selected by country banks which had no knowledge that their condition was unsatisfactory, and that the choice was approved in the comptroller's office notwithstanding full knowledge on the part of the comptroller of the condition of the bank. The comptroller's new order is considered to involve a very important power inasmuch as it will practically place in his hands the authority to enable him to make or break the reputation of a reserve city institution.

New light has been thrown upon the question of tariff revision by President Taft who has officially announced that he favors and will urge revision of the tariff schedule by schedule, as information regarding given schedules is collected by the tariff board which is now charged with that duty. This announcement implies as yet no legislative recognition, but it indicates the method which will be employed in prosecuting the investigations of the tariff board as well as the line along which the administration now pledges itself to labor in its effort to get tariff action from Congress. It is a generally accepted opinion that this plan of revision, if consistently and honestly followed out, would result in largely abolishing the jobbery and dishonesty growing out of tariff bargains which have been considered inseparable from the process of revision in the past. The tariff board, following out the method accepted by President Taft and previously championed for several months past by the liberal Republicans in Congress, is now devoting itself chiefly to the cotton and woolen schedules and has already spent the summer largely in the study of those duties, engaging special experts for further inquiry into rates and costs of production. In addition, the board has arranged to have transferred to it the results of the elaborate inquiries of the bureau of corporations on lumber, and on steel and iron, and will probably make early recommendations

with respect to both schedules. The drug schedule has already been seriously taken in hand. At present, the problem of getting costs of production is being dealt with by holding conferences with trade bodies, organizations of manufacturers, and the like in the hope that such organizations will in the interest of accuracy supply the fundamental data respecting costs. If they finally refuse to do so, resort will be had to data collected in individual plants by consent of their proprietors—a less satisfactory method, but one which may be necessitated by the refusal of Congress to endow the board with plenary power.